

## CHAPTER 3

### TECHNICAL ELEMENTS OF THE PROPERTY ADMINISTRATION PROCESS

A. SCOPE. This chapter provides policy and guidance for PAs in performing the technical elements of the property administration process.

#### B. GENERAL

1. Material. Material is defined in FAR 45.301. Material is further subdivided into Government-furnished material (GFM) and Contractor-acquired material (CAM).

a. GFM is material which is owned by the Government and furnished to a contractor for utilization for specific contract purposes.

b. CAM is material acquired for the Government by the contractor.

c. Material management is the process of providing the required quantity and quality of material needed for contract performance, at the required time and place, with the minimum overall investment. Material control includes planning of material requirements, initiating transfers, requisitioning of GFM, ordering materials and parts from vendors, ordering fabrication of parts, receiving and incoming inspection, recordkeeping of materials on hand to determine when and what to reorder, and the storing and issuing of raw materials and component parts. It pertains to research and development operations as well as production. Management of material is essential to effective contract performance.

2. Agency-Peculiar Property (APP). APP is defined in FAR 45.301 and DFARS 245.301.

a. Special reusable containers for transportation or storage of end items, equipment, or materials will, normally be controlled as APP. Containers for storage or transportation of special tooling and special test equipment are generally considered as an accessory to the special tool or special test equipment.

b. Items returned for rework or repair under warranty provisions of Government contracts will be controlled as APP until repaired or replaced and returned to the Government.

c. Items returned as exhibits on material deficiency reports (MDRs) or quality discrepancy reports (QDRs) shall be controlled in accordance with agency procedures.

3. Special Test Equipment (STE). STE is defined in FAR 45.101. STE units or assemblies generally consist of interconnected special or general purpose electrical, hydraulic, pneumatic, mechanical, or other items. This arrangement causes the individual items to become a unified assembly used in the performance of special testing. Unless otherwise specifically provided by terms of a contract, STE includes all dedicated components of any STE assembly. General purpose plant equipment used for common tests on products do not qualify as STE.

4. Special Tooling (ST).

a. ST is defined in FAR 45.101. Management of special tooling includes the specific areas of acquisition, identification, control, maintenance, and disposition. The area of special tooling also involves nonstandard clauses that impact and affect Government title and ownership. PAs should become thoroughly familiar with the requirements and controls to be exerted over special tooling.

b. Contractor's Procedures. The contractor's procedures concerning storage, movement, and maintenance of special tooling must be complete and adequate to protect the Government's interests. When the management of special tooling will not provide adequate control of tooling, significant losses of tooling may occur and costly work delays could result. An effective move order system is essential to maintain the integrity of the location system,. The contractor's system must also provide for proper maintenance and preservation of the tooling, depending on the nature of the items.

5. Facilities. Definitions of facilities, and facilities contracts are found at FAR 45.301. The definition of a facilities project is found at DFARS 245.301. Facilities consist of plant equipment and real property (see FAR 45. 101). DOD further subdivides plant equipment as Industrial Plant Equipment (IPE) and Other Plant Equipment (OPE) (See DFARS 245.301). PAs should be thoroughly familiar with the basic Government regulations and directives applicable to the management of facilities. PAs are also involved in the preparation and submission of various accounting reports to procurement activities and higher headquarters for administrative and budgetary control purposes.

a. Control of IPE can be enhanced by reconciliation between contractor records and records maintained by the Defense Industrial Plant Equipment Center (DIPEC). DIPEC publishes a computer printout report by DoD activity showing what IPE they have on record. This printout can be requested from DIPEC/OAC, 2163 Airways Blvd., Memphis TN 38114-5051.

b. The DIPEC Handbook (DLAM 4215.1, AR 700-43, NAVSUP PUB 5009, and AFM 78-9) shall be used for guidance and direction in completing any DIPEC required forms or reporting-.

## C. POLICY ON PROVIDING GOVERNMENT PROPERTY

1. Policy on Providing Material. See FAR 45.303-1.

2. Policy for Providing Agency-Peculiar Property. See FAR 45.310.

a. APP is ordinarily furnished under a facilities, supply or service contract but may be furnished under a contract, lease, or bailment agreement.

b. A bailment consists of the delivery of Government property to a contractor for a specific purpose normally related to a prime contract. Bailed property is usually returned to the Government when no longer required by the contractor. Bailment does not include sale, donation, lease, the furnishing of property to a contractor under facilities contracts, or the furnishing of property for consumption or for incorporation in such a manner as to lose its identity in an end product delivered to the Government. A bailment agreement is a contractual agreement that accomplishes the actual bailment of Government property and contains all of the information concerning the bailment. Included are an adequate description of the property, the purpose of the bailment, the use of the property, authorization for modifications that may be made to the property, the period of the bailment, the place from and/or to which the property is to be delivered and/or returned, maintenance requirements, if any, and any other provisions considered necessary.

c. Under 10 U.S.C. 2667, APP, generally major weapon systems, may also be leased to contractors when it is determined that the property is not, for the period of the lease, needed for public use; is not excess property; and the lease will promote the national defense or be in the public interest. It is the Government's policy that leases of military property (Agency-peculiar) will not be made when a counterpart exists on the commercial market. Leases of Government property are awarded to contractors for use as a standard or model for testing their end item, to establish compatibility, commercial sales, Independent Research and Development (IR&D) or for Government improvement and/or developmental programs. The lease shall include all the provisions necessary to describe the property, the purpose of the lease, use of the property, period of the lease, maintenance requirements, inspections upon receipt and return, and other controls deemed necessary.

3. Policy for Providing Special Test Equipment. See FAR 45.307.

4. Policy for Providing Special Tooling. See FAR 45.306.

5. Policy for Providing Facilities. See FAR 45.302. The Government's policy on providing facilities is that contractors shall furnish all facilities required to perform Government contracts. There are very specific policy exceptions, set forth in FAR 45.302-1, where facilities may be furnished to a contractor or a contractor may be authorized to acquire facilities. For example, general purpose plant equipment may be furnished to a contractor for use as a component of STE, or the contractor may be operating a Government-owned

plant on a cost reimbursement basis where the contractor is directed to acquire an item of facilities for the Government. As a general policy, facilities shall be provided to a contractor only under a facilities contract. Exceptions to this policy are set forth in FAR 45.302-3. If facilities are provided under a contract other than a facilities contract as set forth in FAR 45.302-3, they will be managed in the same manner as prescribed in this chapter. Conversely, other types of property are normally provided to a contractor under a supply or services type contract but may also be provided under a facilities contract. Contractors are not allowed profit or fee on the acquisition of facility items, as set forth in FAR 45.302-2. ,

a. FAR 45.301 describes the three forms of facilities contracts:

(1) Facilities acquisition contracts that provide for the acquisition, construction, and installation of facilities.

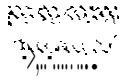
(2) Facilities use contracts that provide for the use, maintenance, accountability, and disposition of facilities.

(3) Consolidated facilities contracts that cover both forms described above in (1) and (2) above.

b. PAs should read and become familiar with all facilities contract clauses, FAR 52.245-7, 8, 9, 10, and 11. Specific attention should be given to clauses applicable to location of facilities, use and rental charges, maintenance, property control, liability for facilities, notice of use, disposition, and facilities equipment modernization. A facilities contract may also include appropriate provisions for maintenance and storage of Government facilities in standby or layaway status such as a Plant Equipment Package (PEP). Such provisions include specifications for the care and maintenance of the property appropriate for its intended use and may be the same as, or different from, the standard maintenance provisions of the FAR clauses. Facilities contracts normally cover a period of 5 years and may be extended when conditions warrant renewal of such contracts. The facilities to be acquired by the contractor at Government expense and furnished by the Government will be described in the schedule attached to the contract. The authorization for use of such facilities will also be identified by a related procurement contract under the definitions provision of the FAR clauses. This is referred to as the primary purpose for which facilities are provided. Upon completion of the primary purpose, facilities should be declared excess unless a new primary purpose is established, justified, and approved by the Government.

c. Approvals for Facility Projects. See DFARS 245.302-70.

6. Policy on DOD Provided Motor Vehicles. See FAR 45.304. When contractors are furnished motor-vehicles, the terms of the contract that authorized the vehicles should be carefully review-Ed--to ensure it includes how the vehicles are to be maintained and identified. As a minimum, the contract should reference guidance contained in DoD 4500.36-R, Management, Acquisition, and Use of Motor Vehicles. If the contract does not provide



appropriate instructions for exercising management control of the utilization, operation, maintenance, and recordkeeping of vehicles, the CO should be notified and requested to incorporate in the contract the requirements of DoD 4500.36-R.

#### D. CONTRACTOR MANAGEMENT OF GOVERNMENT PROPERTY

1. The contractor's management personnel are required to establish and maintain a property control system for the control, use, maintenance, repair, protection, and preservation of Government property in accordance with sound business practice, the applicable provisions of FAR 45.5, and other contractually imposed requirements.

2. The property management activity established by the contractor's management personnel is usually tasked with the establishment and maintenance of the system. This involves establishment of the procedures, performing or coordinating property administration tasks, and controlling the system. This may include internal review, self-audit, or audit of other activities within the company that perform property administration tasks and that affect Government property control.

3. Placement of this activity within the organization is critical to the system's effectiveness. Company organization structures differ widely, but placement will facilitate or effectively curtail efficient property management. Analysis of the contractor's system may reveal that the organizational placement of the property administration function has impacted the establishment or maintenance of the system, or has prevented reporting and/or resolution of deficiencies. Effective placement will facilitate communications between other company activities and upper management.

#### E. ACQUISITION OF GOVERNMENT PROPERTY

##### 1. Material.

a. Determination of Material Requirements. The material control system is closely related to several other functions in the manufacturing process. Engineering organizations provide technical data in the form of drawings, bills of material, and material specifications. Production planning initiates production orders for fabrication of component parts and materials. Material control manages availability of parts and materials necessary for contract performance. To adequately evaluate and understand the contractor's property control system, the PA must be thoroughly familiar with the operation and function of each of these organizational units.

b. Methods of Acquisition. There are two basic methods of providing material to a contractor. \_ The Government may furnish the material (GFM) or the Government may authorize the contractor to acquire material for the Government (CAM). The following paragraphs reflect the basic means of acquisition by the two methods, and the differences in contractual requirements that apply to each.

(1) GFM. There are two subcategories of GFM, Government Source Material and Transferred Material.

(a) Government Source Material.

1 “Government Directed” (Pushed) material may be provided to a contractor according to specific contract terms and provisions. No request from the contractor is required to obtain delivery of the items. This may be either Military Standard Requisitioning and Issue Procedure (MILSTRIP) (Pushed) or contract source where the Government performs all the tasks associated with furnishing this material.

2 “Contractor Requisitioned” Government material is provided to a contractor when the contractor requests the material in accordance with the contract terms. The form of the request will be dictated by contract, utilizing the MILSTRIP system, that includes electronic transmission of orders (requisitions), requisitioning by telephone, mailed requisitions, or formatted messages (teletype).

3 The PA must be fully aware of the contractor’s authority to requisition GFM and be similarly aware of the GFM that is authorized for each Government contract. The PA must ensure that the contractor’s property control system requisitions only those items and quantities of GFM authorized and fully accounts for those assets. The PA must also assure that GFM delivered from the Government is received, controlled, and consumed in accordance with the contract provisions. In the event that the contractor receives items or quantities of GFM that are not contractually authorized, it must be reported in accordance with FAR 45.502(g). The PA shall encourage contractors to advise the CO of such discrepancies and request disposition instructions or contractual authorization for retention.

(b) “Transferred” Government material means that the Government has authorized the accountability of material to be transferred to a contract from another contract or Government source. When beneficial to the Government, and when consideration has been received, for fixed price gaining contracts usually in the form of a reduction in the contract price, the Government may authorize a transfer from one contract to another; the material provided to the gaining contract is considered to be Government-furnished material (GFM). When COS give verbal approval for transfer, the approvals must be confirmed by the COS in writing, as required by the Government property clauses under changes in Government-furnished property. These written approvals should be in the form of appropriate contract modifications. In situations where the PA finds that contracts have not been modified, the facts should be provided to the CO for action. The practice of verbal approvals is discouraged, and should only be implemented due to the exigency of the situation. Written follow-up shall be provided.

## (2) Contractor-Acquired Material.

(a) Cost-type and time-and-materials contracts allow the contractor to acquire material for the Government as a direct charge to the contract. Title vests with the Government through the provisions of the Government property clause FAR 52.245-5(c). Fixed-price type contracts may provide for the contractor to acquire material for the Government as a direct charge to the contract when specifically listed as a line item in the contract. Title vests with the Government through the provisions of the Government property clause FAR 52.245-2(c). The method the contractor selects to acquire material for the Government is based upon several factors (determination of items needed, schedules of production or delivery, source identification, and quantities required).

(b) The first source for acquiring material should be an internal review of available in-house assets that are excess to other requirements. These materials are made available to meet new requirements through internal material transfer practices. Such transfers must be carefully monitored to ensure that they are authorized and properly accomplished.

1 Credit-Debit System. The preferred method of transfer is a credit-debit system for contractor-acquired material where the losing contract is credited for the cost of the material and the gaining contract is debited for the costs. This supports the FAR 31.205-26 policy that material costs should be borne by the contract that consumes material when materials are required for specific contracts. Note that this system applies only to contractor-acquired material. It does not apply to Government furnished material.

2 Transfer of Material through Contract Modification. CAM material may be transferred to a contract when authority to receive such property as GFM is in the schedule or specifications of the gaining contract, or when such items are a suitable substitute for material described in the schedule or specifications of the gaining contract or if the contract contains provisions for unilateral increase in the amount of material furnished by the Government. Transfers should be accomplished according to instructions in the gaining contract or, in the absence of complete instructions in the contract, documentation pertaining to the transfer should be forwarded to the CO for equitable adjustment of the gaining contract and any other required action. Transfers should not be accomplished unless authorized in the receiving contract and no longer required on the losing contract. The Government should receive consideration whenever CAM is so transferred; if not, the Government may pay more than it should and the contractor stands to receive a competitive advantage. Upon transfer CAM becomes GFM.

3 Benefits of a Credit-Debit system over Contract Modification transfers.

a Credit-Debit systems charge material costs to the contract that benefits by the transfer which meets the intent of FAR 31.205-26. In contrast, Contract

Modification transfers incur costs against one contract or program for property ultimately used on another contract or program. This could constitute a violation of the Anti-Deficiency Act. Credit-Debit system does not require contractual modifications as they are internal contractor accounting transactions.

b Contract Modification transfers require modification to the gaining contract to authorize the property to be provided as GFM and to ensure that the Government receives consideration for the property. If this is not done properly, the Government may pay more than it should and contractors may receive a competitive advantage for materials provided as GFM.

c When material is to be transferred to Government contracts with no other Government property, Contract Modification transfers require that a Government property clause be added to those contracts. This action would be unnecessary if a Credit-Debit system transfer was used. Contract Modification transfers frequently increase Government administrative burden and complicate the risk of loss provisions when material is transferred to fixed-price contracts. Credit-Debit system transfers retain the risk-of-loss provisions that apply to other material acquisitions for the contract.

d Credit-Debit system transfers facilitate future transfers to later contracts since excess contractor-acquired materials can be retained at cost by the contractor for other uses in accordance with FAR 45.6. However, once the assets become GFM through a Contract Modification transfer, future transfers or contractor retention requires specific Government approval.

4 Contractor Procedures. Contractor procedures should include controls over all types of transfers. Procedures should include provisions that transfers are reviewed and approved at an appropriate level of contractor management. The review should validate necessity and authority on the gaining contract and assure that the transfer will not adversely impact the losing contract. The review should also ensure that approvals are obtained where required. Contractor procedures should also provide controls to:


a Ensure that all quantities and items being transferred are required in the receiving contract.

b Ensure that, for Credit-Debit system transfers of contractor-acquired material all costs pertaining to such material, including general and administrative, are withdrawn and transferred with the material, and costs for such material are allowable on the contract to which transferred.

c Ensure that proper accountability for property is maintained during the transfer process.

5 Coordination of Transfer Practices. PAs shall coordinate





property transfer procedures with the CO since they are involved with cost and contractual aspects of the transfer process.

(c) If excess assets are not available, other methods of acquisition apply. Material is commonly acquired by the contractor through the company's purchasing system. Material control organizations initiate purchase requisitions for consolidated material requirements which are submitted to the contractor's purchasing function for purchase. Purchases are made from vendors or suppliers by use of a purchase order; material transfer documents are used to transfer material from the contractor's own stock to Government stock for use on the contract; or petty cash vouchers may be used for very small, infrequent purchases. The system must include the necessary controls to assure that quantities purchased are reasonable according to contract type and scope, that documentation is adequate and consistent, and that acquisition actions are performed in a timely manner. Prime considerations are efficiency and overall economy as well as direct cost. —

(d) When the contractor has the capability of manufacturing parts or materials internally, material requirements may be satisfied through fabrication orders. These include orders within the plant or alternate locations of the company, or may include other corporate divisions.

(e) When the purchase order is for material for more than one contract, the quantity which is being acquired for each contract should be specified in the purchase order or supporting documentation. Material acquired through such orders is also considered to be a direct purchase by the contractor and is to be controlled as Government-owned property upon delivery by the vendor.

(f) MILSTRIP material may be considered either contractor-acquired material or contractor owned material when "cash sales" have been authorized in accordance with agency directions.

2. Agency-Peculiar Property. APP is generally furnished to the contractor through provisions in the contract, bailment agreement, or lease. It may also be created through the manufacture or fabrication as related peculiar support equipment that is not readily available as a commercial item.

3. Special Test Equipment. The STE clause, FAR 52.245-18, requires the contractor to prepare and submit to the CO a notice of intent to acquire or fabricate items of STE. Failure on the part of the CO to respond to the contractor's notice of intent within 30 days allows the contractor to acquire or fabricate the equipment or components subject to any other applicable provisions of the contract. Within 30 days from the date of receipt of the contractor's notice, the CO should ensure the following actions have been completed:

a. Review proposed STE items and coordinate with the PA and other appropriate technical personnel, as required, to determine the necessity and classification as special.

b. On DoD contracts, screen requirements for availability of computer equipment per DFARS 245.302-72 and 270.602.

c. For NASA contracts, agency screening and return of a, NASA certificate of nonavailability using a DD Form 1419, “DoD Industrial Plant Equipment Requisition, ” or equivalent, is required if the special test equipment or components qualify as centrally reportable equipment (CRE) as defined in the NASA FAR Supplement.

d. Ensure any funding problems have been resolved.

e. Notify the contractor:

(1) Of the Government’s approval of the proposed acquisition or fabrication,  
or

(2) That the equipment will be furnished by the Government, or

(3) Of the Government’s disapproval of the proposed STE.

f. STE Cost Allocations. See FAR 31.205-40.

4. Special Tooling. There are various methods by which a contractor may acquire special tooling. It may be furnished to a contractor as GFP, or it may be acquired, fabricated or manufactured by the contractor during contract performance and the Government may either have title or the option or right to title to this special tooling. See FAR 45.306.

a. Special Tooling Containers. Specially designed and fabricated reusable containers for special tooling should be considered as special tools and accountability maintained either jointly with the tool or independently when:

(1) Container design and fabrication costs are charged to special tooling accounts.

(2) The container is dedicated to the storage, movement, shipment, or protection of specific special tools.

b. For NASA contracts, agency screening and return of a NASA certificate of nonavailability using a DD Form 1419, or equivalent, is required if the special tooling or components thereof qualify as CRE, as defined in the NASA FAR Supplement.

5. Facilities.

a. Government-Furnished Facilities. All facilities to be provided a contractor as Government-furnished property shall be described in the facilities contract schedule, specifications or attachments to the contract. In addition, facilities may be added to a contract through the use of a contract modification.

b. Contractor-Acquired Facilities. All Government facilities to be acquired by a contractor shall be described in the facilities contract schedule, or as otherwise authorized. Prior to the acquisition of any item of facilities the contractor shall comply with the notification requirements found in the Cost Reimbursement Subcontracts clause, FAR 52.244-2. Contracting Officer consent is required prior to the acquisition of all facilities not stated in the schedule. Prior to acquiring IPE having an item acquisition cost of \$10,000 or more, the contractor shall submit a DoD Industrial Plant Equipment Requisition (DD Form 1419) to DIPEC to ascertain whether existing Government-owned IPE is available for redistribution. In addition, NASA requires a DD Form 1419, or equivalent, to be submitted to NASA for agency screening for all facilities items that qualify as CRE as defined in the NASA FAR Supplement. NASA will assign a Certificate of Nonavailability (CNA) number if the item is not available. The PA shall assure that the contractor prepares a DoD property record (DD Form 1342) subsequent to the acquisition and submits it to NASA citing the CNA number.

(1) If the item is not available, the DD Form 1419 will be returned by DIPEC to the cognizant CAO for transmittal to the contractor as authorization to procure the facilities item. Although the PA is not specifically tasked to obtain a certification signature on the DD Forms 1419 and 1342, the PA shall ensure such certifications are provided and the completed document is maintained in the contractor's official contract files, preferably in a historical file for each item of IPE.

c. Requests for contract transfers involving reclassification of general purpose components of STE acquired under supply contracts; e.g., any transfer or acquisition of an additional facilities item not covered by an approved contract schedule or specification must be treated as an increase of Government property to the contract. This requires prior approval of the CO.

d. PAs may also be involved in the acquisition of real property which includes expansion or capital-type rehabilitation (CTR) projects. Such projects require completion of "Transfer and Acceptance of Military Real Property" (DD Form 1354) by the operating contractor at a Government-owned plant as part of the final inspection and acceptance of completed expansion and CTR projects.

e. -Facilities Supporting Contractors at DOD Installations.

(1) FAR 45.302-3 states that facilities may be provided under other than a

facilities contract when the contract is for the performance of work within an establishment or installation operated by the Government. Accordingly, facilities provided to contractors to support work at DoD installations may be provided under, and be accountable, to, a supply or service-type contract.

(2) Use of a contract other than a facilities contract for providing facilities does not negate the necessity for obtaining facilities project approval, when applicable. These approvals should be obtained by the procuring activity before the issuance of any contractual commitments relative to providing facilities items. See DFARS 245.302-70.

f. Proper Classification.

(1) Support equipment requirements may include several categories of property (special test equipment, general purpose test equipment, industrial facilities, construction equipment, etc.). To ensure proper identification and subsequent project approval processing for any facilities items, it is appropriate that all proposed support equipment requirements be subject to review by a technical specialist before submission to the program office to ensure that the equipment is properly classified. Items identified as facilities should then be referred to the appropriate facilities procuring activity for project approval, or processed in accordance with agency directions.

(2) All facilities items in possession of contractors at alternate locations of the prime contractor that have not been properly reported in accordance with FAR 45.505-14 and DFARS 245.505-14 due to misclassification will be brought to the attention of the prime PA for corrective action. The prime PA should review the items in question and take appropriate action with the contractor to have the records and reporting procedures corrected.

## F. RECEIPT OF GOVERNMENT PROPERTY

1. General. This section covers the contractor's receiving procedures and practices whereby Government property is initially placed in the control or custody of the contractor. It is at this point that the contractor becomes accountable and responsible, and the PA must ensure that the contractor's procedures provide for proper documentation on receiving, actions pursuant to discrepancies, inspection, identification, calibration, movement to storage or using areas, and control of misdirected shipments. Most of the specific functions under receiving are common to all classes of property; however, the PA will have to determine the difference in requirements among the receiving functions for various types of property.

2. Control. Receiving Process - Contractors employ numerous methods and systems for controlling the receipt of property. The receiving process may consist of the following steps: notification to receiving department of due-in assets, physical delivery and initial inspection of the property, reconciliation of assets received against due-in records and preparation of receiving documents, release of assets from receiving organization, quality or technical acceptance inspection as required, identification as required, and distribution of

assets and documentation. Resolution of discrepancies may occur at any time in this process.

a. Notification to Receiving Department of due-in assets. Receiving departments may be provided a copy of the originating purchase orders, MILSTRIP requisitions, and other requisitioning data that reflect the items and quantities ordered and/or due-in. The documents and due-in data are provided for comparison with items physically received, as well as for proper in-processing to accounting records.

b. Physical delivery and initial inspection of the property. Upon delivery an inspection is conducted to ascertain that there is no obvious or visible damage and the quantity of pallets, boxes or containers agrees with the transportation document. Before acceptance of the shipment, the carrier's signature will be obtained to acknowledge any discrepancies. A "Transportation Discrepancy Report" (TDR), SF 361, will be prepared to report discrepant conditions disclosed as a result of the inspection, when appropriate. The authorized use of the SF 361 is addressed in the "Joint" service and agency regulation, AR 55-38, NAVSUPINST 461 O.33C, AFR 75-18, MCO P461O. 19D, and DLAR 4500.15. Contractors must also take action to resolve discrepancies incident to receipt of contractor acquired property.

c. Reconciliation of assets received. For contractor's using due-in records, the assets received will be reconciled against the due-in record. If a Government supply source discrepancy is noted at this time, a "Report of Discrepancy" (ROD), SF 364, is initiated. The SF 364 is addressed in the "Joint" service regulation, DLAR 4140.55, AR 735-11-2, SECNAVINST 4355.18, AFR 400-54, and MCO 4430-3E. Receiving reports are prepared at this time in a manner that clearly indicates the quantity and condition of the property at time of receipt and any discrepancies noted, including overages, shortages, incorrect item(s), misdirected shipments, and/or damage disclosed during the receiving operation. Documentation attached to the report may include freight bill, bill of lading, packing list, Government shipping document (DD Forms 250, "Material Inspection and Receiving Report"; DD Form 1149, "Requisition and Invoice?Shipping Document"; or DD Form 1348, "DoD Single Line Item Requisition System Document (Manual)") and discrepancy report(s).

d. Release of assets from receiving organization. After the receiving department prepares and processes appropriate documentation, the assets are generally released for quality or technical acceptance inspection, storage, or use as required.

e. Quality or technical acceptance inspection as required. The Receiving Department or other contractor activity designated the quality control responsibility may be responsible for a more stringent inspection. The contractor's procedures should clearly outline the inspection responsibilities and indicate the types of Government property that require further technical inspection, operational or acceptance test, and/or calibration before completion of final acceptance and transfer to storage, stockroom, or release for use authorized by contract terms.

f. Identification as required. Designated personnel must determine whether assignment of a Government property tag is required. Tagging requirements are dependent upon the type of Government property. Government property that will not be consumed, or otherwise lose its identity through incorporation into a larger end item or deliverable item, shall be tagged. Government property will be appropriately tagged or marked pursuant to FAR 45.506 requirements, during or immediately after completion of the receiving process. The specific coding, numbering sequence, or identification to be employed must be clearly set forth in the contractor's procedures.

g. Distribution of assets. Upon completion of any required quality inspection, acceptance testing, and/or physical identification, the asset is delivered to the appropriate storage area, stockroom, or released for use as authorized by contract terms.

h. Distribution of documentation. Concurrent with "the distribution of assets, the associated receiving documentation is distributed. This distribution may include a copy retained in Receiving Department Files, one or more copies to purchasing, a copy to the department to which the asset is delivered, and a copy to the Accounting Department for use as a voucher for invoices. At least one copy should accompany the shipment, and it is good practice to provide two, one of which is signed by the receiver and returned to the Receiving Department. It is most important that a copy be provided to the inventory control activity so that stock records can be accurately posted. Individual agency directives may provide additional distribution requirements.

### 3. Discrepant Shipments

a. Transportation Discrepancies. When transportation discrepancies are noted, including those requiring preparation of the SF 361, the PA should assure the matter is referred to the cognizant Transportation and Packaging Specialist or the responsible contractor organization.

#### b. Receiving Discrepancies

(1) FAR 45.502-2 requires the contractor to take all actions necessary in adjusting shortages, overages, or damages in shipment of contractor acquired property from a vendor or supplier except as described below. When receiving discrepancies involve Government-furnished property or assets shipped via Government Bills of Lading (GBLs), discrepancies will be reported on an a Report of Discrepancy (ROD), SF 364, by the appropriate Government representative.

(2) The contractor will prepare a report and forward for processing in accordance with established contractor procedures. These procedures will be part of the contractor's property control system for receiving approved by the PA. This should include providing a completed copy of the report to the PA for informational purposes along with its normal distribution.

c. Misdirected Shipments. The contractor must initiate actions required to report, resolve, and dispose of misdirected shipments. SF 361 or 364 will be prepared as applicable, by the appropriate Government representative.

#### 4. PA Responsibilities for Discrepant Shipments.

a. The PA's review of contractor receiving procedures must ensure that such procedures denote a clear distinction between all types of discrepancies incident to shipments and/or receipts of Government property. These may include Government supply source via GBL or parcel post shipments, contractor and/or vendor to contractor shipments by means of Commercial Bills of Lading, Freight Way Bills, etc.

b. When the PA has questions or concerns related to the SF 364 that are not adequately addressed by the contractor, the circumstances may be discussed with the Government quality assurance, transportation, manufacturing, and engineering personnel for advice on other discrepant conditions which may be present.

c. When the contractor is unable to obtain disposition instructions for misdirected shipments, the PA will be contacted and will provide assistance as necessary.

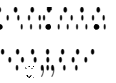
5. Subsidiary Receiving Areas. Subsidiary receiving areas in outlying locations are usually responsible for performing the same functions as the main receiving areas and should be required to submit necessary documentation to the latter. The PA's review of contractor receiving operations shall include local "subsidiary" receiving operations under the direct control of the contractor. Subsidiary contractor operations shall be required, by operation of the contractor's procedures, to maintain the same level of in processing accounting controls required of the primary receiving area.

6. Specialized Receipt of Government Property. Some contractors maintain separate receiving areas that specialize in the receipt, inspection, identification, and release of Government property. The majority of such property, which is shipped from Government supply sources, is consigned to the contractor on Government shipping documents and bills of lading.

#### 7. Other.

a. NASA Requirements. For all equipment received under NASA contracts that meets NASA criteria as controlled equipment, the contractor is required, in accordance with NFS 18-43.505-670, to submit a DD Form 1342, or equivalent, to the NASA representative designated in the NASA Property Administration Delegation Special Instructions within 15 days after receipt. For controlled equipment shipped by NASA to the contractor as GFP, the NASA Equipment Management System (NEMS) generates the DD Form 1342. The NEMS coordinator for the NASA installation sends the DD Form 1342 to the contractor at the time of shipment of the GFP. The contractor is required to add the zip code location of the

property, and any identification number assigned by the contractor, and return a copy of the DD Form 1342 to the individual designated in the NASA Property Administration Delegation Special Instructions.



b. In-house Fabricated Items. Normally, ST, STE, or other items fabricated in-house do not go through receiving. Care should be taken to ensure that these items are recorded on accountable records in accordance with the contractor's established procedures.

## G. IDENTIFICATION OF GOVERNMENT PROPERTY

Government-owned property shall be identified, marked and recorded during the contractor's receiving process. The requirements of FAR 45.506 apply in most cases except for the exemptions given in that section. Proper identification serves to ensure the Government's assets are not confused with contractor-owned property and used for unauthorized purposes. The identification number is assigned by the contractor unless provided by the Government. In addition, it shall be marked on the property, where marking is not impractical, and referenced on support documentation for inventory control purposes.

## H. RECORDS OF GOVERNMENT PROPERTY

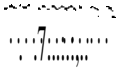
1. General. Property records systems, whether manual or automated, must contain the prescribed data elements as set forth by FAR 45.505 and any other data elements required by specific contract provisions. Normally, the contractor's property control records are the official Government property records established and maintained to account for and control all Government property, including Government-furnished and contractor-acquired property.

### 2. Material

a. As materials and parts are received, they are either placed in stock or issued directly to the user. Documents reflecting receipt of purchased parts and materials are used as a basis for posting material records. Documents indicating completion of fabricated parts, as well as documents indicating issue or turn in of material, also serve as a basis for posting the material records. Transaction documents (evidence of receipt, inventory adjustments, debits and credits) to a contract property account are assigned voucher numbers or equivalent posting reference numbers. Vouchered documents include, but are not limited to, DD Form 1149, "Requisition and Invoice/Shipping Document"; DD Form 250, "Material Inspection and Receiving Report"; and DD Form 1348-1, "DOD Single Line Item Release/Receipt Document." Also included are those documents used in the contractor's purchasing system, such as the receiving report, material transfer document, petty cash document, and fabrication document.

b. Bench stock shall be limited to low dollar, non-sensitive, high usage consumable material and is normally found at the using location. Quantities at the using





location shall not exceed amounts that would normally be consumed within 30 days, or as established in the contractor's approved property control system.

c. Contractors may be authorized in writing by the PA to use a "Receipt and Issue" system in accordance with FAR 45.505-3(d) when there is a clear benefit to the Government. This system is appropriate when material acquired by the contractor or furnished by the Government is issued for immediate consumption. This is an alternate method of recordkeeping instead of perpetual inventory records. When this system is authorized, the contractor is required to maintain a file of appropriately cross referenced documents evidencing receipt and issue for immediate consumption of this material. These documents may consist of purchase requisitions, purchase orders, receiving documents, and issue slips. To justify the use of this material the PA may review the supporting documents (blueprint, drawing, etc.) that generated the purchase requisition as well as conduct discussions with the appropriate contractor personnel. The PA may elect to restrict the application of a receipt and issue system to specific contracts.

d. Custodial items issued from tool cribs, office stock rooms, uniform rooms, and the like shall have control records maintained that include essential data to accomplish effective control. Issues to contractor personnel will be covered by tool chits, uniform slips, or other mechanisms designed to assure return or the ability to locate items which are to be returned. New items are not to be issued without return of worn-out items unless suitable explanation is provided.

### 3. Agency-Peculiar Property.

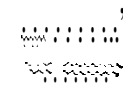
a. Contractors are required to establish control over APP and maintain records in accordance with FAR 45.505-1 and 45.505-13, where applicable.

b. In accordance with FAR 45 .31 O(C), special direction for the control, security, and maintenance of APP may be included in the contract by the contracting officer,

4. Special Test Equipment. The contractor is required to establish and maintain records of Government-owned special test equipment in accordance with FAR 45.505-1 and 45.505-4. The accuracy of these records is important for the proper control, utilization, and disposition of special test equipment. Records must clearly identify general purpose components that are readily removable. These items shall be identified on the item record. In addition, these items must be clearly reflected on inventory schedules in conjunction with plant clearance of STE.

5 . Special Tooling. The contractor is required to establish and maintain records of Government-owned special tooling in accordance with FAR 45.505-1 and 45.505-4. The accuracy of these "records" is important for the proper control, utilization, and disposition of special tooling. Special emphasis should be placed on in-house fabricated tools to ensure that fabrication is properly documented and that the tooling is incorporated within the accountable

inventory control and financial records.



6. Facilities. The minimum requirements for establishing contractor records on Government facilities are set forth in FAR 45.505-5 (plant equipment) and FAR 45.505-7 (real property). The PA should ensure that historical files on centrally reportable IPE are established and maintained as prescribed by DFARS 245.505-6. For NASA centrally reportable equipment a DoD Property Record (DD Form 1342 or equivalent) shall be prepared in accordance with NASA PR B-311.

## I. MOVEMENT OF GOVERNMENT PROPERTY

### 1. Material

a. Movement must be controlled through some type of documentation so that records may be updated to show changes in quantities and location. Various types of documents are used as authority for moving material and for recording movement thereof. Examples of proper documentation are receiving reports, issue documents, turn-in documents, move tickets, and shipping documents.

b. Movement of material requires use of a variety of material handling equipment such as conveyors, fork lifts, cranes, elevators, hoists, positioning equipment, motor vehicles, railroad cars and aircraft. A variety of containers and supports are used to carry in-process or finished materials, parts, assemblies, or products through all phases of the manufacturing cycle. Training is necessary for all personnel involved in the movement and handling of materials and equipment. Practices shall be used that will minimize or are designed to prevent possible damage to property and injury to personnel.

2. APP. The contractor's procedures covering movement of APP should be established, when applicable, to provide for adequate controls while such property is moved from one location to another and stored pending reutilization or disposal. In accordance with FAR 45.3 10(C), when APP requires special handling or safeguards the contracting officer shall provide special instructions for security, etc.

3. Special Test Equipment. The contractor is contractually required by incorporation of FAR 45.5 in a contract to control and protect all Government property. This includes controlling and protecting all STE by ensuring proper movement practices.

4. Special Tooling. The contractor's procedures concerning movement of special tooling must be complete and adequate to protect the Government's interests. When the management of special tooling will not provide adequate control of tooling, significant losses of tooling may "occur and costly work delays could result. An effective move order system is essential to maintain the integrity of the location system.

5. Facilities. The contractor's procedures covering movement of facilities, of a moveable nature, should be established to provide for adequate controls while such property is moved from one location to another and stored pending reutilization or disposal. The PA shall ensure that proper documentation is promptly processed to update the official Government property records.

## J. STORAGE OF GOVERNMENT PROPERTY

1. General. Storage of Government property requires establishing controls that permit ready location and identification. Proper protection of Government property in storage includes but is not limited to security from pilferage; adequate prevention of handling damage; protection against water flows, insects and rodents, or from deterioration by dust, temperature, and humidity. Special controls shall be provided for sensitive property, shelf life items, classified property, and other similar situations. Storage layout and housekeeping are other important factors in the proper storage of Government property.

### 2. Segregation or commingling of materials

a. Commingling is the process by which materials that are common to multiple contractor projects or contracts are stored in a single location. Normally, commingling consists of storing both Government and contractor material in the same room or building, and specifically identifying the material as to ownership by physical segregation of marked bin box, shelf, or package. FAR 45.507 provides criteria for PAs to authorize in writing commingling of materials. The disadvantage in commingling lies in that the property may lose its identity as Government property. Convenience and apparent ease for the contractor alone will not be considered to be advantageous to the Government. There must be clear benefit to the Government. The PA's determination as to whether commingling is advantageous to the Government should include consideration of the following:

(1) Whether it is practical and economical to combine Government and contractor property in the manufacturing or processing operation.

(2) Whether issue, use, and identification controls are adequate to prevent loss in excess of that which might be reasonable under conditions of segregation.

(3) Whether procedures exist for the equitable apportionment of inventory loss.

b. A MMAS differs in its allowance of commingling. See Chapter 5 for MMAS information.

## K. PHYSICAL INVENTORIES OF GOVERNMENT PROPERTY

1. General. It is standard industry practice for a contractor to periodically physically inventory company assets for the purposes of material management and production control. The Government requires the contractor to do likewise for Government property in the contractor's possession. The PA has the authority and the responsibility to approve the contractor's physical inventory practices and procedures in accordance with FAR 45.508.

### 2. Inventory Requirements

a. Frequency of Inventories. Contractors may have various inventory frequencies for different types of property as authorized in 45.508.

(1) Contractors normally accomplish physical inventory of material on an annual or semiannual basis. This is imperative to ensure that the quantity on hand is known and recorded, especially for the purchasing organization and the requirements planning organization to prevent over procurement or work stoppage due to material shortages. However, inventorying all the line items (100 percent) of material is a very time consuming and seldom cost effective method of checking for discrepancies within the contractor's material control system. Two alternative methods are currently in use in commercial practice: statistical sampling and stratification.

(a) Statistical sampling is a method that will reduce costs, yet not increase the Government's risk significantly. In approving the contractor's use of a sampling-type inventory, the PA should examine the contractor's plan to ensure that it does not exceed the risk the Government is willing to accept, and that it provides for use of valid sampling techniques. If the contractor's sample indicates that they have dropped below the approved error rate, they will have to perform a complete inventory and correct the deficiency in the system.

(b) Stratification is appropriate where the contractor does not have specific controls, such as physical inventory, for their own material for items under a certain dollar value. More specifically, the contractor does not physically inventory material that falls below a set dollar value, for example, below \$10.00, or \$25.00, or at some pre-established level. This does not relieve the contractor of responsibility for record keeping but does allow the contractor to expend the greatest amount of time and effort on the high dollar value items. For example, the contractor may be authorized to use a stratified physical inventory process whereby material under \$25.00 is not inventoried, items between the dollar value of \$25.01 and \$99.99 are statistically sampled, and all items above \$100 are inventoried 100 percent. The contractor may be authorized by the PA to stratify material by dollar value for the purposes of physical inventory. This determination should be based on the contractor providing supporting rationale for this type of inventory and the PA's assessment of reliability of the contractor's system.

(c) A combination of stratification and statistical sampling may be useful and could be done by authorizing the contractor to perform statistical sampling of low value items and a complete inventory of high value items. Decisions as to types or methods of inventory must be determined at each location. Criteria for separating low value items from high value items is a matter of judgment and should be based on the PA's knowledge and confidence of the contractor's operation. If inventory methods can be cost-effective without requiring the Government to assume an unreasonable risk, this method should be "authorized in accordance with the PA's authority to approve the type of inventory that the contractor will perform (FAR 45.508).

(2) Physical inventory of nonconsumable assets (ST, STE, Facilities, etc.) should be based on the contractor's established practices; the type, use, and amount of Government property involved; the monetary value of the property; and the reliability of the contractor's property control system.

b. Types of Inventories. The contractor's method of accomplishing the physical inventory must be detailed in the procedures portion of their property control system. The two primary means of performing an inventory are periodic and cyclical.

(1) A periodic inventory is taken at predetermined intervals, usually accomplished in a short period of time, on a wall-to-wall basis. The interval between inventories may be semiannual, annual, biennial, and so forth, but must be based on the contractual considerations such as type, amount, value, and usage of Government property and the established practices and reliability of the contractor's property control system.

(2) An inventory by exception is taken on a continuous basis with a fixed beginning and ending inventory cycle. This type of inventory uses move orders, calibration checks, and other situations where the items are "touched" by disinterested parties. However, when these situations occur, the inventory must comply with all contractual provisions. Toward the end of this cycle, a periodic inventory must be performed on items not already inventoried during the inventory period.

(3) An ABC inventory stratifies the property to be inventoried either by criticality or dollar value as these items are likely to be controlled more tightly than others. For example, those items with high dollar values are financially more important than those with low dollar values. All items may be placed in at least three categories: A, B, and C. Class A items, the most critical, are counted, for example, perhaps six times a year; class C items, the least critical, are counted less frequently. Consideration should also be given to other situations such as items that have a long lead time, items subject to pilferage, and critical or sensitive items.

c. Approval Requirements. The PA approves the contractor's inventory practices as part of the property control system. In all cases the requirements of FAR 45.508 must be met for a system to be acceptable. These requirements include:

(1) Personnel who perform the inventory shall not be the same individuals who maintain the property records or have custody of the property unless the contractor's operation is too small to do otherwise. Movers, calibration technicians, or maintenance personnel are all eligible to perform the inventory if they do not fall into the above category. Often, contractors will hire a separate company, such as special service firms, to do the inventory. This has proven to be a very effective method. In addition, it is recognized that some contractors are using current technologies such as bar coding, electronic reading, recording, and reporting to facilitate the accomplishment and completion of inventories.

(2) Under a manual system, the property inventoried is generally tagged or marked in a manner that readily indicates that the item has been inventoried. The tags used should be designed to last through the inventory cycle. The tags used are often color-coded or have the current year identified.


(3) If the PA approves an inventory by exception method, move orders, maintenance cards, or calibration checks can be used for inventory purposes during the inventory cycle. The move orders, calibration checks, or maintenance cards must clearly describe the item to include the property control number and any other identification so that these documents can be reconciled with the official property records.

d. Property in the Possession of a Subcontractor. Contractors are required to periodically inventory all Government property and shall cause subcontractors to do likewise. The contractor's property control system shall include procedures necessary to accomplish this action. The prime contractor will use the subcontractor's records if the subcontractor has a Government Approved Property Control System for controlling property under other prime contracts, unless otherwise directed by the PA (See FAR 45.505(a)).

e. Physical Inventory Upon Completion or Termination. In accordance with FAR 45.508-1, contractors are required to perform and cause each subcontractor to perform a physical inventory, adequate for disposal purposes, of all Government property. The inventory may be waived by the PA when the property is authorized for use on a follow-on contract if past contract performance has established the adequacy of property controls and an acceptable degree of inventory discrepancies. In addition, the contractor provides a statement indicating that record balances have been transferred in lieu of preparing a formal inventory list and that the contractor accepts responsibility and accountability for those balances under the terms of the follow-on contract.

f. Other Inventories. As contractually authorized, the PA may require inventories upon notification by the contractor or discovery by the PA of LDD of Government property.

3. Accomplishing the Inventory. The PA shall review the contractor's property control system to ensure that, where applicable, the following actions are performed:



a. Preparation for Inventory. Before conducting the inventory, the contractor shall specify the method to be used, identify all locations where Government property is stored or used, schedule start and stop dates, and notify users as to commencement or performance of the inventory.

b. Performing the Inventory. All property inventoried must be sighted, recorded, reported, and reconciled with the property records. The physical inventory should be taken from the floor without knowledge of the record balances. The purpose of this action is twofold. It prevents a bias on the part of the counter due to foreknowledge of the record balance as well as it will determine if any property has been received and not included in the property records.

c. Recording the Inventory. Upon completion of the inventory, all pertinent records will be annotated as to the accomplishment of the inventory and the actual physical count recorded. Results shall be compared between the actual physical count and the balances recorded in the contractor's property control records.

d. Reconciling the Inventory. The contractor shall reconcile those items where there exists a discrepancy between the actual physical count obtained during the inventory and the "balance on hand" last posted to the record. Reconciliation normally consists of a number of different actions, some of which may include: reviewing the physical counts accomplished during the inventory for miscounts, correcting miscounts due to weighing, and reviewing the records for possible posting errors, consisting of either incorrect or incomplete entries. Most contractors conduct investigations to reconcile all variances, regardless of the dollar value. This could mean that more money is being spent checking variances than the line items are actually worth. When the contractor is performing a complete inventory of all material, the PA should consider authorizing the contractor to conduct a variance analysis only on those line items in which the variance exceeds minimum dollar value; for example, \$10.00, \$15.00, etc. This approval should not be used in conjunction with a sampling-type inventory, since the two combined will increase the Government's risk.

e. Reporting the Inventory. The contractor, through established management channels, will promptly furnish the PA the results of the inventory in accordance with FAR 45.508-2. The time frames for reporting results shall be established in the contractor's property control system. This report will include:

(1) A listing that identifies all discrepancies.

(2) A signed statement that the physical inventory of all, or a part, was completed on a certain date.

(3) "A statement that the official property records are in agreement with the physical inventory, except for the discrepancies reported.

(4) Inventory results on a quantitative and monetary basis by category of property, if requested by the CO in accordance with FAR 45.508-3.

f. Adjustment of Records. All inventory discrepancies reported by the contractor will be evaluated by the PA to determine actual losses of Government property. Differences caused by record errors or offsetting overages and shortages of similar items are not construed to be actual losses to the Government. Inventory adjustments necessitated by posting errors will include appropriate cross-reference to the error in the official property records. The PA shall make a liability determination for material adjustments to records arising from the results of physical inventories in accordance with the applicable Government property clauses. The PA may elect to make a single liability determination to address all material losses or determine if individual items or categories, e.g., sensitive items, high dollar items, or pilferable items require separate review and determination. Losses or shortages involving special tooling, special test equipment, facilities or agency-peculiar property shall not be listed on Inventory Adjustment Vouchers. All such occurrences shall be reported to the PA for a determination of liability in accordance with the applicable Government property clauses. Physical inventory adjustments for facilities, special tooling, and special test equipment, including found assets once reported lost and removed from the official property records, shall be posted to the official property records.

## L, REPORTS OF GOVERNMENT PROPERTY

1. General. Management of reports includes the review of the document(s) for accuracy, completeness, and timeliness of submission, as well as the contractor's system for obtaining and compiling the data reported.

### 2. Reports of DoD Property in the Custody of Contractors (DD Form 1662).

a. The contractor is responsible for preparing appropriate reports as prescribed in FAR 45.505-14 and DFARS 245.505-14 for all DoD contracts. DFARS 245.505-14 prescribes the use of DD Form 1662 (DoD Property in the Custody of Contractors). This report shall include all DoD-owned Government property in the contractor's possession, including property accountable to a prime contract but is located at a subcontractor's plant and/or alternate location.

b. The data reported is as of September 30 each year. In addition, the contractor must report zero balances on contracts accountable for DoD property when they close. The report may be submitted using DD Form 1662 or an equivalent substitute approved by the PA. The form is self-explanatory and contains the instructions and required codes on the reverse side. The contractor is required to furnish the prepared report, in duplicate, to the PA no later than October 31 each year. The PA will forward the reports to the appropriate DoD office in accordance with agency directives.